

Lakeshore Public Academy

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Lakeshore Public Academy

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This section of the Lakeshore Public Academy's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Lakeshore Public Academy financially as a whole. The school-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the school-wide financial statements by providing information about the School's most significant fund—the General Fund. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School acts solely as an agent for the benefit of students and parents. The basic financial statements are comprised of the following elements:

Management's Discussion and Analysis (MD&A) (Required Supplementary Information)

Basic Financial Statements

- School-wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Reporting the School as a Whole—School-wide Financial Statements

One of the most important questions asked about the School's financial statements is what are the statement of net assets and the statement of activities, which appear first in the School's financial statements. These statements report information on the School as a whole and its activities in a way that helps you better understand the school. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School's net assets—the difference between assets and liabilities, as reported in the statement of net assets—as one way to measure the School's financial health or financial position. Over time, increases or decreases in the School's net assets—as reported in the statement of activities—are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the schools operating results. The School's goal is to provide services to our students, not to generate profits as a commercial entity. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School.

The statement of net assets and statement of activities report the governmental activities for the School, which encompass all of the School's services

Reporting the School's Most Significant Funds – Fund Financial Statements

The School's fund financial statements provide detailed information about the most significant funds—not the School as a whole. Some funds are required to be established by state law and bond covenants. However, the School has established other funds to help it control and manage money for particular purposes.

Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation statement. However, no reconciling items existed for the year end June 30, 2008, therefore no reconciliation schedules have been provided.

The School as a Whole

Recall that the statement of net assets provides the perspective of the School as a whole. The following table provides a summary of the School's net assets as of June 30, 2008.

Statement of Net Assets

	<u>2008</u>	<u>2007</u>
Assets		
Current and Other Assets	\$ 146,279	\$ 258,179
Liabilities		
Current Liabilities	<u>53,279</u>	<u>90,594</u>
Net Assets		
Unrestricted	\$ <u>93,000</u>	\$ <u>167,585</u>

The analysis on the previous page focuses on the net assets. Current assets decreased as cash was used to pay current year expenditures. Current liabilities decreased as the school was closed in June 2007 and a number of operating expense were paid in July of 2007. However, operating expense are at a minimum and the majority of them were paid prior to year end. The current liabilities related entirely to unemployment costs as the School is a reimbursement employer and must repay the State of Michigan for all unemployment benefits paid.

The results of this year's operations for the School as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal year 2008. Revenue and expense comparison to fiscal year 2007 is listed below.

Statement of Activities

	<u>2008</u>	<u>2007</u>
Program Revenues		
Operating Grants	\$ -	\$ 98,072
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	-	801,475
Miscellaneous	<u>7,588</u>	<u>4,725</u>
Total Program Revenues and General Revenues	7,588	904,272
Expenses		
Instruction	-	441,089
Support Services	82,173	313,106
Food Services	-	19,011
Athletics	-	10,683
Interest on Long-term Debt	-	126,212
Unallocated Depreciation	<u>-</u>	<u>52,044</u>
Total Governmental Activities	<u>82,173</u>	<u>962,145</u>
Change in Net Assets Before Special Item	(74,585)	(57,873)
Special Item - Default on Long-term Debt	<u>-</u>	<u>(451,029)</u>
Change in Net Assets	(74,585)	(508,902)
Net Assets at Beginning of Year	<u>167,585</u>	<u>676,487</u>
Net Assets at End of Year	<u>\$ 93,000</u>	<u>\$ 167,585</u>

Change in Net Assets

The Schools net assets decreased by \$74,585. This decrease was the result of the School closing the School in June 2007. As a result the only school revenues were investment earnings and some miscellaneous refunds. Expenditures decrease due to the School closing as well. The final expenditures primarily related to administration, unemployment expenditures, legal and accounting services.

The School's Funds

As we noted earlier, the School uses funds to help it control and manage money for specific purposes. The General Fund ended the year with a decrease in fund balance of \$74,585. This decrease in fund balance was the result of paying final administrative costs for closing the School.

General Fund Budgetary Highlights

The School did not adopt a budget for June 30, 2008.

Capital Asset and Debt Administration

The School had no capital assets or long-term debt at June 30, 2008 and 2007.

Economic Factors and Next Year's Budget

The School closed effective June 30, 2007. The School has established a temporary location in order to complete the balance of the procedures necessary to close the School in accordance with State of Michigan laws. The School expects to complete this process prior to June 30, 2009.

The School expects to have only a few additional significant expenditures prior to closing the temporary offices. The School is a reimbursing employer for State of Michigan unemployment purposes and therefore the School expects to reimburse the State of Michigan for all unemployment claims filed by former employees. The School will also have additional expenditures related to administration, possible legal fees and final auditing fees prior to closing the School.

Contacting the School Financial Management

The financial report is designed to provide a general overview of the School's finances for all those interested in the School's finances. If you have any questions about this report or need additional information, contact the Lakeshore Public Academy, 2130 W. U.S. 10, Ludington, MI 49431.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 31, 2008

Board of Directors
Lakeshore Public Academy
Ludington, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Lakeshore Public Academy (the School), as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakeshore Public Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lakeshore Public Academy, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that Lakeshore Public Academy will continue as a going concern. As discussed in Note J to the financial statements, the School Board closed the school. Management's plans regarding this matter are also described in Note J. The financial statements do not include any adjustments that might result from the outcome of this action.

Lakeshore Public Academy has not presented a General Fund budgetary comparison schedule that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not a required part of the basic financial statements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of Lakeshore Public Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Board of Directors
Lakeshore Public Academy
October 31, 2008
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The management's discussion and analysis on pages i - v are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bridley DeLong, PLC

Lakeshore Public Academy
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS		Governmental activities
CURRENT ASSETS		
Cash and cash equivalents		\$ 146,279
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities		<u>53,279</u>
NET ASSETS		
Unrestricted		\$ <u><u>93,000</u></u>

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Net (Expense) Revenue and Changes in Net Assets Governmental activities</u>
Governmental activities		
Support services	\$ 82,173	\$ (82,173)
General revenues		
Investment earnings		3,774
Miscellaneous		<u>3,814</u>
Total general revenues		<u>7,588</u>
Change in net assets		(74,585)
Net assets at July 1, 2007		<u>167,585</u>
Net assets at June 30, 2008		<u><u>\$ 93,000</u></u>

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy
BALANCE SHEET
Governmental Funds
June 30, 2008

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u><u>146,279</u></u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 48,812
Accrued liabilities	<u>4,467</u>
Total liabilities	53,279
 Fund balance	
Unreserved	<u>93,000</u>
Total liabilities and fund balance	\$ <u><u>146,279</u></u>

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
Governmental Funds
For the year ended June 30, 2008

	<u>General Fund</u>
REVENUES	
Local sources	
Investment earnings	\$ 3,774
Other	<u> 3,814</u>
Total local sources	7,588
EXPENDITURES	
Current	
Support services	<u> 82,173</u>
Net change in fund balances	(74,585)
Fund balance at July 1, 2007	<u> 167,585</u>
Fund balance at June 30, 2008	<u><u> \$ 93,000</u></u>

The accompanying notes are an integral part of this statement.

Lakeshore Public Academy
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lakeshore Public Academy (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Reporting Entity

The School was governed by an appointed five-member Board of Directors (Board), which was responsible for control over all activities related to public school education within the School. The School received funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. The Board was dissolved in June 2007, and two individuals were responsible for final closing procedures of the School. However, the School is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

School-wide and Fund Financial Statements

School-wide Financial Statements – The primary focus of School-wide financial statements is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities. The School-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these statements. The School-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the School-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The School-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general revenues (certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School does not allocate indirect costs.

Lakeshore Public Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

School-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from School-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School functions typically are financed. The acquisition, use and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School reports the following major governmental fund:

- The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The School-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School reports its investments in accordance with GASB Statement No. 31, *Accounting Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

Lakeshore Public Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deposit and Investments—Continued

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School's deposits and investments are in accordance with statutory authority.

Net Assets In School-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity in Fund Financial Statements

The School reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Lakeshore Public Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

The School did not adopt a budget for the current year. The School amended the final budget for the year ended June 30, 2007 and included a contingency line item for the remainder of the School's fund balance. Any funds remaining after all expenditures are paid are to be returned to the State of Michigan.

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2007, \$47,234 of the School's bank balance of \$147,234 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School is not authorized to invest in investments which have this type of risk.

NOTE D—GOING CONCERN / SCHOOL CLOSURE

In February 2007, the School's Board of Directors voted to close the School. The School had been struggling with declining enrollment, flat per pupil revenues from the State of Michigan and increasing fringe benefit costs. The School vacated their facilities in June 2007. The School expects to maintain some minimal operations until all required school closure procedures required by the State of Michigan are completed including payment of all bills. Management expects this to be completed by June 30, 2009.

As shown in the accompanying financial statements, the School ended the year with a decrease in fund balance of \$80,567 and an ending fund balance of \$87,018. The School had terminated all employees, transferred all capital assets to an outside third party as settlement for the default on a promissory note secured by the School's facilities (see Note K for more information) and transferred all School records to an appropriate site.

Lakeshore Public Academy
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—GOING CONCERN / SCHOOL CLOSURE—Continued

The School does expect a few additional significant expenditures before the School can be closed. The first significant item is unemployment. The School elected in the past to reimburse the State of Michigan for unemployment benefits received by former employees of the School. All the employees terminated by the School will qualify for unemployment benefits and the amount of those benefits is not currently determinable since it is unclear how many employees will claim benefits and how long the employees will receive benefits. Management has recorded a liability for the first year of claims. The balance of benefits to be paid can not be determined at this time. Management balance of unemployment benefits is estimated at less than \$10,000. The School will also have final administrative expenditures to close the School. Remaining funds, if any, are required to be paid to the Michigan Department of Treasury.

NOTE E—RELATED PARTY TRANSACTIONS

During the year ended June 30, 2008, the School paid the former Board president and executive director \$6,385 and \$14,644, respectively, for services related to closing the School.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 31, 2008

Board of Directors
Star Blohm, Board President
Lakeshore Public Academy
Ludington, Michigan

In planning and performing our audit of the financial statements of Lakeshore Public Academy as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Lakeshore Public Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Material Weaknesses

Segregation of Duties

Recommendation 1: Segregation of duties should be strengthened.

Although the small size of the School's staff limits the segregation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Often, one of the most effective approaches is the expansion of documented approval of transactions and reconciliations by someone outside of the office staff.

We would suggest that the bank statements be received unopened and a documented reviewed be performed by someone independent of the accounting function.

Cash Management

Recommendation 2: Bank reconciliations should be prepared and reviewed in a timely fashion.

During our audit, we noted that no bank reconciliations were performed during the year.

The timely preparation and review of the bank reconciliations would help ensure that no error or misappropriation of School funds go undetected.

Financial Statement Preparation

Recommendation 3: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The School should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

Budget

Recommendation 4: The School should adopt a budget in accordance with Public Act 621.

During our audit, we noted that the School did not have a budget for the year ended June 30, 2008. Public Act 621 requires annual budgets be adopted.

The preparation of annual budgets would ensure compliance with Public Act 621.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

October 31, 2008

Board of Directors
Star Blohm, Board President
Lakeshore Public Academy
Ludington, Michigan

We have audited the financial statements of Lakeshore Public Academy as of and for the year ended June 30, 2008 and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lakeshore Public Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lakeshore Public Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lakeshore Public Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 4, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Directors
Star Blohm, Board President
October 31, 2008
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Internal Control Over Financial Reporting—Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that significant deficiencies 1 and 2 are material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Lakeshore Public Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lakeshore Public Academy's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Lakeshore Public Academy's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

Lakeshore Public Academy
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

COMPLIANCE

NONE

Material Weaknesses

Fiscal 2008 Finding No. 1: Segregation of Duties

Criteria: Duties should be adequately segregated so as to separate incompatible duties.

Condition: A certain individual has access to both physical assets and the related accounting records or all phases of a transaction.

Cause: The School is a small organization with limited opportunities for the segregation of duties.

Effect: Errors in processing transactions and financial reporting and the misappropriation of assets could go undetected.

Recommendation: Segregation of duties should be strengthened by having the unopened bank statements reviewed by someone independent of the accounting function.

School Response: The School agrees with the finding and has implemented the recommended procedure.

Fiscal 2008 Finding No. 2: Bank reconciliations should be timely prepared and reviewed by an independent individual.

Criteria: Bank reconciliation should be done timely and reviewed.

Condition: No bank reconciliations were done during the year and no review of those reconciliations were completed.

Cause: Due to limited bank activity, no reconciliations were performed.

Effect: Errors or missappropriation of School funds could have occurred and gone undetected.

Recommendation: The School should completed monthly bank reconciliation and those reconciliations should be reviewed and initialed by an independent third party.

School Response: The School agrees with the finding and has implemented the recommended procedure.

Lakeshore Public Academy
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

Fiscal 2008 Finding No. 3: Financial Statement Preparation

Criteria: The preparation of the formal financial statements should have documented control procedures.

Condition: There are currently no internal controls related to the preparation and review of the formal year end financial statements.

Cause: The School is a small organization with limited resources and personnel have difficulty in establishing and maintaining effective internal controls related to the preparation and review of the formal financial statements.

Effect: There could be errors and omissions in the financial statements that go undetected.

Recommendation: The School should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

School Response: The School agrees with the finding, but will not implement any changes due to the closing of the School.

Fiscal 2008 Finding No. 4: A formal budget should be adopted in accordance with Public Act 621.

Criteria: State of Michigan law requires a budget be adopted for all General Fund and special revenue funds.

Condition: No budget was adopted for the General Fund for the year ended June 30, 2008.

Cause: The School board dissolved in June 2007 as part of closing the School. The board amended the June 30, 2007 budget and increased the contingency line item to include the remainder of the General Funds fund balance. The School board did not believe any further actions was required.

Effect: There is no financial controls to limit expenditures in any area.

Recommendation: The School should adopt a budget in accordance with Public Act 621.

School Response: The School agrees with the finding, but will not implement any changes due to the closing of the School.